

Farm Credit System Insurance Corporation

November 26, 2008

Board of Governors of the Federal Reserve System
Docket No. R-1335
Jennifer J. Johnson
Secretary of the Board of Governors
20th Street and Constitution Avenue, N W
Washington, DC 20551

Dear Sir or Madam,

The Farm Credit System Insurance Corporation (F C S I C) appreciates the opportunity to comment on the proposed rule to lower risk weights for claims on, or guaranteed by, Fannie Mae and Freddie Mac published in the October 27, 2008 Federal Register. The F C S I C is an independent Federal Government-controlled corporation managed by a three member Board of Directors that is appointed by the President and confirmed by the Senate. Our primary mission is to protect investors who purchase insured Farm Credit System bank-issued bonds and notes. To accomplish this task, the F C S I C manages the Farm Credit Insurance Fund with \$2.8 billion in assets at September 30, 2008.

The Farm Credit System (System) is a Government Sponsored Enterprise (G S E) that finances 35 percent of all US farm business debt through a nationwide framework of 5 banks and 92 local retail associations. Currently, the System has assets exceeding \$200 billion and capital exceeding \$25 billion. The Farm Credit System banks issue unsecured consolidated debt obligations and, like the Federal Home Loan Banks, the System banks are jointly and severally liable for the obligations. On September 30, 2008, the System banks had \$174 billion in insured obligations outstanding.

We are commenting to bring to your attention the unintended consequences of your proposed rulemaking. F C S I C believes a 10 percent risk weighting for Fannie and Freddie debt will put System debt at a significant disadvantage. By cutting the capital required for holding Fannie and Freddie debt in half, those debt instruments become more appealing than the debt instruments of the other G S E's, like the System, which in your proposal will still require a 20 percent risk weighting. A lower capital requirement results in a higher overall return, a primary driver for investor behavior.

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Like other firms that regularly access the capital markets, System funding costs have increased, particularly for longer term obligations, since establishment of the Federal conservatorships (Fannie Mae and Freddie Mac) and exclusive Federal Reserve backup borrowing facilities for all of the housing G S E's in early September. After the announcement of the new F D I C Temporary Liquidity Guarantee Program in mid-October, the System experienced another significant increase in debt spreads. Furthermore, investors who buy Farm Credit System debt are reluctant to lend money for periods in excess of a year.

In light of the unprecedented market turmoil numerous new liquidity backstops have been added for financial institutions other than the Farm Credit System, the G S E that serves more than 450,000 agricultural producers and their cooperatives. In September, Treasury entered into a Senior Preferred Stock Purchase Agreement with both Fannie and Freddie to provide additional security to their debt-holders. Treasury also entered into a Lending Agreement with each of the Federal Home Loan Banks to provide them a source of contingency liquidity. The Emergency Economic Stabilization Act temporarily lifted the borrowing limits for F D I C and N C U A with Treasury, again providing backup liquidity for these Federal entities. F D I C is providing a temporary full faith and credit guarantee for bank and thrift senior unsecured debt. Finally, the Federal Reserve has announced that it will buy debt of Fannie, Freddie and the Federal Home Loan Banks.

In combination, these actions make it harder for the Farm Credit System to efficiently borrow in debt markets. The System is paying higher interest rates on its debt instruments and longer term funding is very limited. Your proposals, if adopted, would exacerbate this situation. Farm Credit System debt would be more costly for banks and thrifts to hold than Fannie and Freddie debt, even though Farm Credit System institutions are financially sound and the System's debt is insured by F C S I C's \$2.8 billion Insurance Fund. If System debt is significantly more costly, F D I C insured institutions won't buy it and that will make it even harder for the Farm Credit System to raise funds, thereby jeopardizing its congressionally mandated G S E mission of providing credit to agriculture and Rural America. Many farmers, ranchers and other System borrowers are experiencing a cost/price squeeze because input costs remain high while commodity prices have dropped. A higher risk weighting for System debt is likely to add to their borrowing costs and tighten credit for System banks just as borrowers are financing their production costs.

We urge you not to differentiate between G S E's as proposed in your risk weighting rules. In this environment, System debt instruments should be risk weighted the same as the debt instruments of Fannie and Freddie so that each G S E can continue fulfilling its congressionally mandated mission. If we can answer any questions about the F C S I C or the Farm Credit System, please do not hesitate to contact us.

Sincerely, signed

Nancy C. Pellett
Chairman